

**REPORT ON THE
COMPREHENSIVE AUDIT**

**CITY OF LONG BEACH
LONG BEACH, CALIFORNIA**

**MATERNAL, CHILD AND ADOLESCENT
CONTRACT NO. 200660
FISCAL PERIOD:
JULY 1, 2006 THROUGH JUNE 30, 2007**

**Audits Section - Gardena
Financial Audits Branch
Audits and Investigations
Department of Health Care Services**

**Section Chief: Cheryl Phillips
Audit Supervisor: Cheryl Phillips
Auditor: Kristine Lim**



DAVID MAXWELL-JOLLY

State of California—Health and Human Services Agency
Department of Health Care Services



ARNOLD SCHWARZENEGGER
Director

July 27, 2009

Terri Nikoletich
MCAH Director
City of Long Beach
2525 Grand Avenue, Room 250
Long Beach, CA 90815

Terri Nikoletich,

The claims for expenditures for services provided by City of Long Beach, under the Maternal Child, Adolescent Health and Black Infant Health, Contract No. 200600, for the fiscal period of July 1, 2006 through June 30, 2007 have been reviewed by the Financial Audits Branch of the Department of Health Care Services. In addition, a review was made of the program's management and operational procedures.

Except as set forth in the following paragraph, our review was made in accordance with generally accepted government auditing standards as promulgated by the Comptroller General of the United States. Accordingly, our review included such tests of the accounting records and other review procedures, as we considered necessary under the circumstances.

The financial statements of City of Long Beach for the years ended September 30, 2006 and September 30, 2007, were examined by other auditors whose reports dated June 28, 2007 and June 25, 2008 respectively expressed unqualified opinions on those statements.

The scope of our review was limited to specific contract or program requirements relating to financial compliance and did not include sufficient work to determine whether the financial statements present fairly the financial position and the results of the financial operations. We have not duplicated the work performed by the other auditors.

As noted in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial position referred above. Consequently, no financial statements are presented.

The program review was conducted during the months of September 2008 through May 2009. The exit conference was held on May 14, 2009 at which time the results of the engagement were discussed.

This Audit Report includes the:

1. Executive Summary of Findings
2. Introduction
3. Scope of Review
4. Contract Compliance
5. Fiscal Findings
6. Systems and Procedures
7. Schedules
8. Contractor Response to Adjustments / Findings
9. State Program Response to Adjustments / Findings

The report concludes that \$452 is due the State government. You will be receiving an invoice in that amount from the Department's Accounting Section.

Please develop and submit a corrective action plan within ninety (90) days of receipt of this letter to:

Maternal Child Adolescent Health Division
Maternal Child Adolescent Health and Black Infant Health Programs
California Department of Public Health
1615 Capitol Avenue, MS 8306
P O. Box 997420
Sacramento, CA 95899-7420

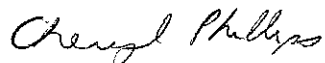
and a copy of this plan to:

Cheryl Phillips, Chief
Audits Section – Gardena
Department of Health Care Services
19300 South Hamilton Avenue, Suite 280
Gardena, CA 90248

If you disagree with the amount due, you may appeal by writing to Chief, Administrative Appeals, Office of Legal Services, Department of Health Services, 1029 J Street, Suite 200, Sacramento, California 95814. This written notice of disagreement must be received by the Department within sixty (60) calendar days from the day you receive this letter. A copy of this notice should be sent to the Assistant Chief Counsel, Appeals and Suspension Section, Office of Legal Services, Department of Health Services, MS 0010, P.O. Box 997413, Sacramento, California 95899-7413. The procedures that govern this hearing are contained in Welfare and Institutions Code, Section 14171, and Title 22 California Code of Regulations, Section 51016, et seq.

Terri Nikoletich
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If you should have any further questions, please contact Joelyene Browne, Contract Manager, at (916) 650-0397



Cheryl Phillips, Chief
Audits Section – Gardena
Financial Audits Branch

Certified

cc: Paula Curran, M.H.A., P.H.N.
Nurse Consultant II
Program Standards
Maternal, Child and Adolescent Health Division
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CITY OF LONG BEACH
MATERNAL, CHILD, ADOLESCENT HEALTH AND BLACK INFANT HEALTH
JULY 1, 2006 THROUGH JUNE 30, 2007

I. EXECUTIVE SUMMARY OF FINDINGS

The following information is a summary of our findings:

The Financial Audit Branch's review was limited to the Maternal Child and Adolescent Health (MCAH) and Black Infant Health (BIH) Programs. The following information is a summary of our findings for the fiscal year period of July 1, 2006 through June 30, 2007. The detail of these findings is included in Section IV through VI of this report.

Contract Compliance

1. The annual report was filed on time. It was properly labeled with contractor's name, programs names, and fiscal year, address, and allocation number, and MCAH toll free telephone number.
2. The contractor did not file the MCAH first and BIH fourth quarter invoices in timely manner.
3. The contractor's designated time study month is the second month in the quarter. The month designated to be studied month was consistently time studied throughout the year.
4. All staff claiming FFP matching on the program budget completed daily time studies for minimum of one month in every second month in the quarter.
5. The contractor used enhanced function codes for the non Skilled Professional Medical Personnel (SPMP). The contractor incorrectly claimed \$452 BIH coordinator as enhanced funds. An adjustment is proposed to recover \$452.
6. As noted in the Program Goals and Objective, the City of Long Beach "the City" performed many activities to achieve the goals and objectives of the MCAH and BIH programs. However, for BIH objective 1, the number of clients assisted were far below the targeted number stipulated in scope of work.

Fiscal Findings

1. A review of the invoices submitted by the contractor for the reimbursement found that the contractor billed within the approved budget and in total \$20,881 of capital costs were incorrectly billed as other costs instead of capital costs.
2. A review of the salaries, fringe benefits, travel expenses claimed on the invoices were properly supported and within the contract budget.

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System and Procedures

- 1 A study and evaluation of the City Public Health Department's internal control was not performed

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II. INTRODUCTION

A. DESCRIPTION OF PROGRAM

The Maternal and Child Health (MCAH) established on the state level in 1973, is funded by a Federal Title V Block Grant as well as by Federal Medicaid funds (Title XIX), state General Fund, and the state Cigarette and Tobacco Products Surtax Fund. The mission of the MCH Branch is to assure that infants, children, adolescents, and pregnant women in California receive a variety of services to protect and improve their health. To accomplish its goals, the Branch maintains partnerships, contracts, and agreements with state, federal and local agencies in both the public and private sectors.

B. DESCRIPTION OF AGENCY

The MCAH and BIH programs are operated and maintained by the City of Long Beach Public Health Department. The programs assisted women in the Long Beach City to obtain the pregnancy verification, early prenatal care, apply for Medi-Cal and education regarding tobacco, alcohol and substance abuse during the pregnancy.

C. SITE LOCATION

The City maintains and operates its MCH Access and Outreach center at 2525 Grand Avenue, Suite 104, Long Beach, California. The center is handicapped accessible and accessible to public.

The City maintains its BIH program at Houghton Park at 6301 Myrtle Avenue, Long Beach, California. The center is handicapped accessible and accessible to public.

D. FUNDING SOURCE

A majority of City of Long Beach Public Health Department revenue and support is received from State and Federal grants on a cost reimbursement basis.

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E. CONTRACT GOALS AND OBJECTIVES

The MCAH contract is to use the funds to achieve these goals:

1. All children are born healthy to healthy mothers.
2. No health status disparities among racial/ethnic, gender, economic and regional groups.
3. A safe and healthy environment for women, children and their families.
4. Equal access for all women, children and their families to appropriate and needed care within an integrated and seamless system.

The BIH contract is to use the funds to promote these goals:

1. Reduce the deaths of African-American infants, including deaths due to Sudden Infant Death Syndrome (SIDS)
2. Increase the first trimester prenatal care visits by pregnant African-American women.
3. Foster the continuity of health care services during the perinatal and interconception period for African-American women and their infants

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JULY 1, 2006 THROUGH JUNE 30, 2007

III. SCOPE OF REVIEW

The Financial Audit Section's review was limited to Maternal, Child and Adolescent and Black Infant Programs and consisted of the following:

1. A review of the financial records to ensure the existence of the proper documentation and the propriety of claims submitted to the State for reimbursement.
2. A review of the operation to determine if the contractor complied with applicable statutes, regulations, and terms and conditions to the State contract.

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IV CONTRACT COMPLIANCE

The examination included a review to determine if the City of Long Beach conducted the program in compliance with MCAH and BIH programs terms and applicable regulatory requirements. The following is a summary of findings relating to this portion of the audit

Finding No. 1

A review of the contractor's progress report determined that the contractor did file the annual report in timely basis. It was filed on due date. The annual report was labeled with contractor's name, programs names, fiscal year, address, allocation number and MCAH toll free telephone number.

Finding No. 2

The contractor did not file the first MCAH and fourth BIH quarter invoices in timely manner. The first quarter MCAH invoice was filed on December 22, 2006. The BIH fourth quarter invoice was filed on January 14, 2008. The contractor is required to file the quarterly invoices 45 calendars days after the close of the billing period, and the final invoice must be postmarked no later than 90 calendar days after the Agreement's expiration date or the fiscal year end (whichever is earlier)

Finding No. 3

All staff claiming Federal Financial Participation (FFP) matching on the program budget properly completed daily time studies for a minimum of one month in every second month in the quarter. The second months of quarters were consistently time studied through out the audited period.

Finding No. 4

The contractor used enhance rate function codes such 2, 3, and 8 for the non Skilled Professional Medical Personnel (SPMP) but did not claim enhanced funding when these codes were incorrectly used except for BIH coordinator. The contractor incorrectly claimed \$452 BIH coordinator as enhanced funds. An adjustment is proposed to recover the \$452.

Finding No. 5

Modular furniture purchase of \$20,881 was incorrectly reported as other costs instead of Capital costs on BIH fourth quarter invoice. According to Public Health Administrative Policy and Procedure, capital expenditure is to be entered on capital expenditure line of invoice and invoice will distribute expense between categories automatically. OMB A-87's definition of the capital expenditure is as follows, "Capital

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expenditure means expenditures for the acquisition cost of capital assets (equipment, buildings, land), or expenditures to make improvements to capital assets that materially increase their value or useful life. Acquisition cost means the cost of the asset including the cost to put it in place. Acquisition cost for equipment, for example, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in, or excluded from the acquisition cost in accordance with the government unit's regular accounting practices." It further defined equipment as, "An article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the governmental unit for financial statement purposes, or \$5,000

Finding No. 6

We reviewed contractor's MCAH objective 1. Objective 1 required the contractor to operate a MCAH Program under the direction of an approved MCAH Director in accordance with the State MCAH Branch Policies and Procedures. To complete this objective, the contractor developed collaboratives with Long Beach – Wilmington Best Babies Collaborative, Health and Nutrition Access Workgroup, LB Medi-Cal Health Families Outreach, and LB Oral Health Task Force.

Finding No. 7

We reviewed contractor's MCAH objective 2. Objective 2 required the contractor to maintain a toll-free phone number to refer clients to appropriate health and preventive care services with emphasis on low income, high risk women of childbearing age, pregnant women, and children. We verified a toll-free phone number was maintained by the contractor.

Finding No. 8

We reviewed contractor's MCAH objective 3. Objective 3 required the contractor to provide skilled professional expertise, appropriate to the population needs of the jurisdiction, in identifying, coordinating, and expanding health and human services for pregnant women and children through collaborative planning, development, and assurance of quality perinatal services. We verified the contractor's Perinatal Services Coordinator participated in the State and local training and meeting and completed eight quality assurance reviews.

Finding No. 9

We reviewed contractor's MCAH sub-objective 4.1. Sub-objective 4.1 required the contractor to provide monthly presentations utilizing curricula for educating health care consumers in the target population on how to best access and utilize the available community and health care resources, for women, adolescents and children in order to

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improve early entry into prenatal care and low birth weight rates, maintain low infant mortality rates and downward trend in teen births, and improve the proportion of children receiving appropriate preventive services. We verified the contractor provided education to 304 parents instead of 352 parents as reported on annual report and placed sealant on 372 children.

Finding No. 10

We reviewed contractor's BIH objective 1. Objective 1 required the contractor to conduct a community-based BIH Program in the local jurisdiction that supports facilities, and promotes better health care services for at-risk African-American women, children up to age of one year, and their families. We verified the contractor established a linkage with WIC program, City of Long Beach Public Department's Prenatal Clinic. The numbers of clients assisted by the BIH program were far below the targeted number stipulated in BIH scope of work. The targeted number of clients served stipulated in BIH scope of work were as follows:

Community Education Contact	Between 5000-10,000
Social Support and Empowerment	Between 40-60
59 Births per fiscal year	

The provider reported the following number of client assisted through BIH program in the Annual Report as follows:

Prenatal Care Outreach	36 new, 12 health and 1 low birth
Outreach Contact	Approx. 1,000
Social Support and Empowerment	26 Enrolled, 11 graduated

We verified these numbers of clients:

Prenatal Care Outreach	36 Enrolled, 15 normal birth, 2 low birth weight, and 1 Missing
Outreach Contact	906 clients
Social Support and Empowerment	25 graduated from SSE

The BIH program originally located at 1133 Rhea Street was flooded in March 2006 due to broken water pipe. Some BIH staff was placed in Houghton Park Community Center, and others were placed in Miller Family Health Education Center due to lack of space in Houghton Park Community Center. Its files and computers were put in storage. Two computers were connected by June 2006, but the staff could not contact the existing clients because the client files were not accessible. Since the BIH already occupied some space in Houghton Park, Long Beach Department of Health and Human Service decided to permanently relocate BIH program to Houghton Park. From February through May 2007, the remodeling was performed to include workstations for all BIH program staff, and BIH moved into new location in May 2007. During this period, the existing clients did not know the new phone number, and BIH did not have a reliable place to hold outreach events and classes. Also, BIH experienced lack of outreach

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workers. One left and one was on medical leave due to worker compensation injury. The outreach duties fell on one outreach worker. Due to the relocation and lack of staff, the BIH was not able to meet the targeted numbers. To prevent these problems in future, BIH office has a conference area, and the staff is equipped with computers, copiers and printer. BIH's data is internet based, and is retrievable and accessible from any computer. BIH has instituted a recovery system to access information, including client contacts if they can not access their space or their computers in the future. The BIH staffing has been stable since August 2008.

The contractor added these activities to achieve goals of the BIH program:

- Sistah's Speak Workshop
- 1 four-week session Afro centric parenting
- Breastfeeding Workshop

Finding No. 11

We reviewed contractor's BIH objective 2. Objective 2 required the contractor to administer culturally competent community exchange and awareness to inform and educate African-American women who are at risk for poor birth outcomes and the community on the importance for early access and maintenance of prenatal care. We verified the contractor convened two meetings with African Infant Health Advisory Board, ensuring access to quality perinatal care of African-American women and survival of their infants by promoting education and referral programs in the community.

Finding No. 12

We reviewed contractor's BIH objective 3. Objective 3 required the contractor to develop and implement educational strategies that assist pregnant African American women to understand the causes of low birth weight. We verified the contractor conducted "The Journey" workshop and topics included staying healthy during pregnancy, eating for two, warning signs for preterm labor. It assisted pregnant women to understand the cause of low birth weight.

Finding No. 13

We reviewed contractor's BIH objective 4. Objective 4 required the contractor to coordinate with existing treatment services for substance and alcohol abuse and smoking cessation programs for referral of pregnant African-American women to reduce / eliminate risky behaviors during pregnancy. We verified the contractor referred pregnant or parenting clients with risky behaviors of substance abuse to tobacco education, alcohol and drug rehabilitation program, and Baby Step Inn.

Finding No. 14

We reviewed contractor's BIH objective 5. Objective 5 required the contractor to educate African-American families on Sudden Infant Death Syndrome (SIDS) deaths in the African community and strategies that may reduce SIDS deaths. We verified the

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JULY 1, 2006 THROUGH JUNE 30, 2007

contractor conducted SIDS workshops

Further, based on our examination, nothing came to our attention to indicate that the City of Long Beach has not complied with the material terms and conditions of the contract beyond the findings noted above.

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V FISCAL FINDINGS

The following is a discussion of the fiscal findings relating to the Audits and Investigations' examination of MCAH and BIH Programs expenditures as claimed by City of Long Beach Public Health Department

Finding No. 1

A review of the invoices submitted by the contractor for the reimbursement found that the contractor billed within the approved budget, in total \$20,881 of capital costs were incorrectly billed as other costs instead of capital costs.

Finding No. 2

A review of the salaries, fringe benefits, travel expenses claimed on the invoices were properly supported and within the contract budget.

Further, based on our examination, nothing came to our attention to indicate that the City of Long Beach Public Health Department has not complied with the material terms and conditions of the contract beyond the findings noted above.

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VI. SYSTEMS AND PROCEDURES

A study and evaluation of City of Long Beach Public Health Department's system of internal control was not performed for the following reasons:

The City of Long Beach hired KPMG LLP to perform the audit on the Comprehensive Annual Reports for fiscal year ended September 30, 2006 and September 30, 2007. Both examinations were based on general accepted auditing standards and general accepted government auditing standards. In the review of the internal control structure, the independent auditors noted matters involving the internal control that they considered needed improvements. However, they did not concern the MCAH and BIH programs

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VII. SCHEDULES

Schedules of Comprehensive Annual Financial Reports, copies of independent auditors' reports, summary of reviewed contract expenditures and explanation of the audit adjustment have been included in this report

City of Long Beach, California

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Prepared by the Department of Financial Management
Michael A. Killebrew, Director

City of Long Beach
Comprehensive Annual Financial Report
For the Fiscal Year Ended September 30, 2006

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CITY OF LONG BEACH

OFFICE OF THE CITY MANAGER

333 WEST OCEAN BOULEVARD • LONG BEACH CALIFORNIA 90802 • (562) 570-6711 • FAX (562) 570-6583

GERALD R. MILLER
CITY MANAGER

June 21, 2007

Honorable Mayor and City Council
City of Long Beach

In accordance with Section 302(e) of the City Charter, submitted herewith is the Comprehensive Annual Financial Report (CAFR) for the City of Long Beach (City) for the fiscal year ended September 30, 2006. This report has been prepared by the Department of Financial Management in accordance with generally accepted accounting principles (GAAP) and was audited in accordance with generally accepted auditing standards and government auditing standards by a firm of licensed certified public accountants.

This report contains management's representations concerning the finances of the City, and management assumes full responsibility for the completeness and reliability of all of the information presented. To provide a reasonable basis for making these representations, management of the City of Long Beach has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. As the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement. As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's basic financial statements have been audited by KPMG LLP, an international public accounting firm fully licensed and qualified to perform audits of the State and local governments within the State of California. The goal of the independent audit was to provide reasonable assurance that the City's financial statements for the fiscal year ended September 30, 2006 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditors concluded that there was a reasonable basis for rendering an unqualified opinion that the City's basic financial statements for the fiscal year ended September 30, 2006 are fairly presented in conformity with accounting principles generally accepted in the United States. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the City's basic financial statements is part of a broader, federally-mandated "Single Audit" designed to meet the special needs of Federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the City's fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of Federal awards. The City's separately issued "Single Audit" report is available by contacting the City's Department of Financial Management.

The City prepared this CAFR using the financial reporting requirements outlined in the Governmental Accounting Standards Board (GASB) Statement No. 34. This statement requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors in the accompanying financial section.

Profile of the Government

The City of Long Beach, incorporated in 1897, is the fifth largest City in the State of California, located within Los Angeles County in Southern California. The City occupies a land area of approximately 50 square miles and serves a population of approximately 493,000.

The City operates under a City Charter first adopted in 1921. The City Charter establishes the current Mayor-Council-City Manager form of government. The City is divided into nine councilmanic districts, with Councilmembers elected to represent their respective districts for up to two four-year terms. The citizens, as a whole, elect a Mayor to serve up to two, four-year terms. The citizens, as a whole, also elect a City Auditor, City Prosecutor and City Attorney to serve four-year terms; however, there are no term limits for these positions. The City Council and Mayor appoint a City Manager who serves at their discretion. The City Council is a policy-setting body that is responsible, among other things, for enacting ordinances, adopting the budget and appointing committees. The City Council appoints, among others, the members of the following commissions and boards:

- Citizen Police Complaint Commission
- Civil Service Commission
- Harbor Commission
- Parks and Recreation Commission
- Planning Commission
- Water Commission

The City Council also either serves as or appoints the voting majority of the governing board for the Parking Authority, the Southeast Resource Recovery Facility (SERRF) Joint Powers Authority, Housing Authority of the City of Long Beach, Long Beach Housing Development Company, Redevelopment Agency of the City of Long Beach, Long Beach Bond Financing Authority and the Long Beach Public Transportation Company.



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles CA 90071-1568

Independent Auditors' Report

The Honorable Mayor and City Council
City of Long Beach, California:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City) as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Airport Enterprise Fund, Parking Authority (subfund of Tidelands Fund), and Air Quality Improvement Fund (subfund of Transportation Fund), which represent the following percentages, respectively, of the assets, net assets or fund balance, and revenues of the following opinion units:

Opinion units	Assets	Net assets or fund balance	Revenues
Governmental activities	<1%	<1%	<1%
Business-type activities	2.25	3.21	2.47
Aggregate remaining fund information	14.17	29.47	5.01
Tidelands fund	—	—	<1

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Airport Enterprise Fund, Parking Authority, and Air Quality Improvement Fund, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California, as of September 30, 2006 and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, the Housing Development Fund, and the Community Development Grants Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 28, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 21 and the schedule of the City's pension plans funding progress on pages 125 and 126 are not a required part of the basic financial statements, but are supplementary information required by the U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information identified in the table of contents as the introductory section, the additional financial information section, and the statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining and individual fund statements and schedules in the additional financial information section have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

Los Angeles, California
June 28, 2007

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City of Long Beach, California

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

Prepared by the Department of Financial Management
Lori Ann Farrell, Director

COMPREHENSIVE ANNUAL FINANCIAL REPORT

PREPARED BY THE DEPARTMENT OF FINANCIAL MANAGEMENT

CITY OF LONG BEACH, CALIFORNIA

For the Fiscal Year Ended
September 30, 2007

Lori Ann Farrell
Director of Financial Management

David Nakamoto
Acting City Controller

Mary Williams
Accounting Operations Officer

Francine Wiegelman
Accounting Operations Officer

Sandra Jong
Accounting Operations Officer

Michael Carrigg
Senior Accountant

Cathy Pingol
Senior Accountant

Bart Ramos
Senior Accountant

Angie Tran
Accountant

Jim Sugita
Accountant

Lucy Hong
Accountant

Latrice Cooper
Executive Secretary



City of Long Beach
Comprehensive Annual Financial Report
For the Fiscal Year Ended September 30, 2007

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CITY OF LONG BEACH

OFFICE OF THE CITY MANAGER

333 WEST OCEAN BOULEVARD • LONG BEACH CALIFORNIA 90802 • (562) 570-6711 • FAX (562) 570-6583

PATRICK H. WEST
CITY MANAGER

June 24, 2008

Honorable Mayor and City Council
City of Long Beach

In accordance with Section 302(e) of the City Charter, submitted herewith is the Comprehensive Annual Financial Report (CAFR) for the City of Long Beach (City) for the fiscal year ended September 30, 2007. This report has been prepared by the Department of Financial Management in accordance with generally accepted accounting principles (GAAP) and was audited in accordance with generally accepted auditing standards and government auditing standards by a firm of licensed certified public accountants

This report contains management's representations concerning the finances of the City, and management assumes full responsibility for the completeness and reliability of all of the information presented. To provide a reasonable basis for making these representations, management of the City of Long Beach has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. As the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement. As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's basic financial statements have been audited by KPMG LLP, an international public accounting firm fully licensed and qualified to perform audits of the State and local governments within the State of California. The goal of the independent audit was to provide reasonable assurance that the City's financial statements for the fiscal year ended September 30, 2007 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditors concluded that there was a reasonable basis for rendering an unqualified opinion that the City's basic financial statements for the fiscal year ended September 30, 2007 are fairly presented in conformity with accounting principles generally accepted in the United States. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the City's basic financial statements is part of a broader, federally-mandated Single Audit designed to meet the special needs of Federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the City's fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of Federal awards. The City's separately issued Single Audit report is available by contacting the City's Department of Financial Management.

The City prepared this CAFR using the financial reporting requirements outlined in the Governmental Accounting Standards Board (GASB) Statement No. 34. This statement requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors in the accompanying financial section.

Profile of the Government

The City of Long Beach, incorporated in 1897, is the fifth largest City in the State of California, located within Los Angeles County in Southern California. The City occupies a land area of approximately 50 square miles and serves a population of 492,642.

The City operates under a City Charter first adopted in 1921. The City Charter establishes the current Mayor-Council-City Manager form of government. The City is divided into nine council districts, with Council members elected to represent their respective districts for up to two four-year terms. The citizens, as a whole, elect a Mayor to serve up to two, four-year terms. The citizens, as a whole, also elect a City Auditor, City Prosecutor and City Attorney to serve four-year terms; however, there are no term limits for these positions. The City Council and Mayor appoint a City Manager who serves at their discretion. The City Council is a policy-setting body that is responsible, among other things, for enacting ordinances, adopting the budget and appointing committees. The City Council appoints, among others, the members of the following commissions and boards:

- Citizen Police Complaint Commission
- Civil Service Commission
- Harbor Commission
- Parks and Recreation Commission
- Planning Commission
- Water Commission

The City Council also either serves as or appoints the voting majority of the governing board for the Southeast Resource Recovery Facility (SERRF) Joint Powers Authority, Housing Authority of the City of Long Beach, Long Beach Housing Development Company, Redevelopment Agency of the City of Long Beach, Long Beach Financing Authority, a portion of Long Beach Bond Finance Authority and the Long Beach Public Transportation Company.

The City Manager is responsible for directing and supervising the administration of all City Manager-directed departments of the City, to ensure that laws, ordinances, orders, resolutions, contracts, leases and franchises are enforced and executed, and for appointing all City employees except for classified civil service employees, the City Clerk, elected officers, and their appointees

The City provides a full range of municipal services, including police, fire, disaster preparedness, public health and environmental services, library, parks and recreation, social services, engineering, public works, sanitation, planning and community development, gas, water, airport and towing services. The City operates and maintains a world-class international deep-water harbor, a nationally recognized convention center, beaches and marinas. The City also administers oil extraction operations under a trust agreement with the State of California

The annual budget serves as the foundation for the City's financial planning and control. The City Manager must submit a proposed budget to the Mayor on or before July 1st and the Mayor must present that proposed budget along with recommendations to the City Council on or before August 1st. The City Council is required to hold one or more public hearings on the proposed budget and to adopt a final budget on or before September 30, the close of the City's fiscal year. The budget must be approved by fund and department. The City Council adopted the fiscal year 2007 budget prior to September 30, 2006 for all funds except for expendable trust funds. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various funds. The City Council may amend the budget by motion during the fiscal year. The City Manager may transfer appropriations within the departments or within a given fund, without City Council approval, provided that the total appropriations at the fund level and at the department level do not change. Transfers of appropriation between funds or departments require City Council approval. Total expenditures of each fund may not exceed fund appropriations, and total expenditures for each department may not exceed departmental appropriations. Appropriations lapse at the end of the fiscal year to the extent they have not been expended or encumbered.

Facing New Challenges While Continuing to Make Progress

The economic uncertainties evident in the current national economy are impacting Long Beach and municipalities throughout California. A slowdown in the overall economy has negatively impacted sales tax growth and declining home values will reduce property tax revenue expectations for the foreseeable future. In spite of these daunting fiscal realities, the Mayor, City Council and City Manager are well positioned to face the City's economic realities and to take the necessary steps to preserve and protect the City's ongoing financial stability.

Between 2002 and 2006, a focused and carefully coordinated effort between government and the community successfully eliminated a structural deficit of \$102 million. The difficult but valuable lessons learned from that formidable task have promised to serve the City well as it takes on new and equally difficult challenges.

While estimates of the current state's deficit are close to \$20 billion increased community expectations and limited areas for cutbacks make the identification of potential budget reductions an acutely sensitive exercise, one that can only be facilitated by close cooperation among all participants

Under the leadership of the Mayor, City Council, City Manager and involved citizenry achieving and maintaining ongoing fiscal solvency is not only attainable, but achievable

Critical Infrastructure Needs Tempered by Limited Funding

The City's aging and deteriorating infrastructure continues to be a significant area of concern to both residents and City management. Long Beach was originally settled well over a century ago and the need to rehabilitate streets, sewers, sidewalks, storm drains and other critical infrastructure assets is of paramount concern. Indeed, even the Long Beach Civic Center itself has been identified as requiring costly seismic retrofitting to maintain the viability of the 1976 structure. It is clear that currently identified revenue streams will not be sufficient to meet the City's complex infrastructure needs in a timely manner. Therefore, new and creative options must be identified and implemented to ensure the city's diversified infrastructure base is repaired and maintained.

Continued Stimulation of Economic Growth

Long Beach is the 35th largest city in the United States, which makes it larger than Cleveland, Omaha, Miami, Minneapolis, Pittsburgh and Kansas City. As characterized by Mayor Bob Foster in his 2008 State of the City address, Long Beach has gone from being "an industry town dependent on federal spending to a 21st century economy supported by international trade and the burgeoning creative class."

In 2007, downtown Long Beach was recognized as one of the "Top Ten Turnaround Downtowns" in the United States by the Urban Land Institute. Carefully planned and location appropriate redevelopment continues to be at the core of the resurgence of downtown Long Beach. As defined by the Long Beach Redevelopment Agency, successful redevelopment embodies four principal guidelines: involve the surrounding community, keep a long-term perspective, involve the right "human" resources to facilitate the process and meet goals, and find the right financial resources.

The revitalization that results from successful redevelopment stimulates the economy by creating new investments, new jobs and new opportunities for community stakeholders. One ambitious effort for which ground has recently been broken is the West Gateway project on the west side of downtown. The current phase will be the first of three mixed-use developments in an area that was once a blighted neighborhood of decaying residences and underutilized commercial structures. The three-block area from Maine Street to Chestnut between Broadway and 3rd will include a combination of market-rate apartments and for-sale condominiums in the Central and Downtown Redevelopment Project Areas.

It is important to note that while the subprime mortgage crisis and other economic factors have resulted in modestly lower property values in Long Beach, the reduction in most beach communities, as recently reported in the *Los Angeles Times*, is far less than in interior locales

The desirability of beach-adjacent property is also expected to result in an earlier recovery than might be expected in other areas

Creating a Sustainable City

Environmental issues continue to resonate with City residents and their elected representatives. Mayor Bob Foster and the City Council have expressed enthusiastic support for a variety of sustainability efforts. Among the significant achievements in the area of sustainability and environmental health were:

- The River Link Project connecting neighborhoods in the western end of the city with parklands adjacent to the Los Angeles River will become a reality thanks to the efforts of Los Angeles County Supervisor Don Knabe
- Fifteen acres of open space were added to the urban core
- The City Council voted to make Long Beach the first city to join both the Climate Registry and the California Climate Action Registry to track progress in reducing greenhouse gas emissions
- Long Beach Transit now uses more hybrid buses than any other system its size in the country
- Long Beach residents were asked to conserve water during a period of drought and the result was that with a population 35 percent larger than 25 years ago, the City used the same amount of water as it did then
- Long Beach Airport will become the first "green" airport in the nation by utilizing solar power and emissions reductions programs for runway equipment and on-site vehicles
- Long Beach became the first large California city to require major private development projects to be LEED certified by the Leadership in Energy and Environmental Design Green Building Rating System

The Mayor's Priorities For Long Beach

At the 2008, State of the City, Mayor Bob Foster highlighted his priorities for the coming year:

- The very first job of local government is public safety. As such, we are pleased to report that in 2007, Long Beach's murder rate dropped to its lowest level since 1974

- Achieving a structurally balanced budget through improved operations and focusing on core services
- Providing greater economic opportunities for young people as evidenced in the creation of the Architecture, Construction and Engineering (ACE) academy
- Fostering diversity and a culture of tolerance and understanding
- Supporting efforts to clean up dirty diesel trucks at the Ports of Long Beach and Los Angeles
- Creating a renewed focus on infrastructure priorities including streets and roads, sidewalks, health and safety facilities, environmental systems and public buildings
- Encouraging City employees to be more "facilitators" and less "regulators "

The Continued Importance of Convention Business and Tourism

With the support of the Long Beach Convention and Visitors Bureau, both tourism and convention business continues to stimulate the City's economy. The number of total annual visitors to the City exceeds 6,000,000, with direct visitor spending accounting for almost \$350,000,000 annually.

As such two new hotels are under construction in downtown Long Beach ensuring that the City will be even more attractive to prospective conventioners in coming years. The City is proud to announce that it will host the annual Technology, Entertainment and Design Conference bringing thousands of the nations top "Thinkers and Doers" to Long Beach in 2009.

The Port of Long Beach

The Port of Long Beach and its adjacent neighbor, the Port of Los Angeles, continue to drive the local, state and national economies. In 2007, the Port handled over 87 million metric tons of cargo, an increase of almost 2.5% over 2006. Over 316,000 jobs (1 in 22) in the five-county Southern California region are directly related to the port, as are almost 1.4 million jobs throughout the nation.

Long Beach is the second busiest port in the United States and the 16th busiest container cargo port in the world. When combined, the ports of Long Beach and Los Angeles are the world's fifth busiest port complex after Singapore, Shanghai, Hong Kong and Shenzhen (China).

In recognition of increasing environmental concerns, the Port of Long Beach has announced its intention to become the most environmentally friendly Port in the world. The Board of Harbor Commissioners has adopted a pioneering Green Port Policy, which sets the framework for the Port's environmental protection efforts as well as its day-to-day operations. The overarching goals of the Green Port Policy are to protect wildlife habitats, improve air and water quality, ensure clean soil and undersea sediments and create a sustainable Port culture.

Port security is also a primary concern of government at all levels. In recognition of the need for ongoing vigilance, the Port of Long Beach has recently been awarded \$12.8 million by the U.S. Department of Homeland Security to fund critical communications and undersea surveillance systems. The Port is spending \$4.2 million of its own funds on these projects under the cost sharing required of these security grants. The funds were recently awarded as part of nearly \$142 million in the fifth and latest round of awards under the federal Port Security Grant Program.

Funds will also be used to support a new fiber optic data transfer and interoperability network that will allow the Port of Long Beach's security team to quickly exchange essential information including images from surveillance cameras with the Port of Los Angeles. Funds will also support fixed and mobile undersea surveillance systems.

The Long Beach Airport

In 2007, there were 14,191 airline landings at the facility, a 10.6% increase in landings over 2006. Passenger traffic for calendar year 2007 totaled 2,906,556, an increase of 5.4%. As the airport celebrates its 85th anniversary it remains a vital component of both economic stimulus and enhanced service for Long Beach residents and visitors alike. City management remains committed to maintaining the integrity of the City's noise ordinance, while also bringing airport facilities up to 21st century standards. Design plans for a new parking structure and terminal improvements are moving forward as planned.

Neighborhoods and Quality of Life

For years, the Department formerly known as the Planning and Building Department has helped to shape the places where people live, work, and play throughout the City. Now, the department has expanded to include the City's Redevelopment Agency, whose mission is to improve the quality of life of all Long Beach residents by removing blighted areas and revitalizing neighborhoods. To recognize this transition and reflect the dynamic and service-oriented nature of the department, a new name was adopted: Long Beach Development Services.

Long Beach Development Services will endeavor to work with the community to get the right development, in the right place, at the right time. In addition, a shared vision will be formulated for how Long Beach will look over the long term, with a goal toward building a sustainable and environmentally responsible city that sets the standard for other cities to follow.

The City of Long Beach is also committed to maintaining and improving the quality of life in its neighborhoods, commercial corridors and industrial areas. The Code Enforcement Division of the Community Development Department responds to complaints of violations of the Long Beach Municipal Code that include substandard buildings, property maintenance, inoperative vehicles and land use violations. The City of Long Beach is divided into four Code Enforcement areas that are aligned with the existing divisions of the Police Department (North, South, East and West). Each area is assigned a code enforcement team overseen by a Team Leader.

These teams work with individuals, neighborhood associations and local business groups to resolve code enforcement issues in the area. When violations are identified, the responsible parties are contacted and requested to abate the conditions. Failure to correct violations could result in a citation or a referral to the City Prosecutor's office. These efforts help to ensure that Long Beach continues to improve the quality of life of its residents and businesses.

Using Performance Management and Achieve Progress

Performance management makes local government work better and become more cost effective for its residents by establishing performance goals, measuring progress, and making strategic decisions based on specific desired outcomes. Long Beach's process is called "Focus on Results" and involves five steps:

Planning: establishing annual Strategic Business Plans that outline the objectives departments will accomplish annually.

Budgeting: targeting resources around clear and measurable results through the City's performance-based program budgeting process.

Measuring: tracking operational and financial performance on a monthly, quarterly and annual basis to measure progress toward accomplishing short and long-term goals.

Communicating: publishing a portfolio of performance reports for internal and external audiences, City Council, the community and city management.

Evaluating: analyzing performance information to make strategic operational, fiscal and policy decisions and set goals for the coming year.

In a time of economic contraction, the successful deployment of Performance Management will help Long Beach invest its limited resources in the programs that most effectively deliver essential and core services to the community it serves.

Cash Management Policies and Practices

To maintain flexibility in cash management, the City employs a pooled cash system (see Notes 2 and 4 to the Basic Financial Statements in the Financial Section). Under the City's pool, all available cash is invested daily in various securities, while maintaining reasonable liquidity to meet maturing obligations and maximizing returns through the use of competitive rate comparisons from various investment sources.

The City's pooled investments for fiscal year 2007 averaged \$1,567,095,000 and earned an annual average return of 4.66 percent, reflecting a 97 basis point increase over the prior year. The City's pooled investments averaged \$1,362,707,000 for fiscal year 2006 and earned an annual average return of 3.69 percent.

The rate of return demonstrates that the City maintained a reasonable and safe return on its investments during fiscal year 2007, while employing prudent investment policies to safeguard the City's cash assets and maintaining adequate levels of liquidity. The City's Department of Financial Management presents cash and investment reports to the City Manager, Investment Advisory Committee and City Council each quarter. The City Auditor also performs a quarterly independent audit of City cash accounts and investments for adherence to the City's Statement of Investment Policy. The City's general investment strategies are set forth in a formal Statement of Investment Policy.

which has been written in accordance with State law and is reviewed and approved annually by the City Council

As of this writing, we are pleased to report that Standard and Poor's rating agency has rated the City's investment pool as AAA

Risk Management

The City is self-insured for workers' compensation and tort liability. While the City has accumulated funds in the City's Insurance Internal Service Fund to meet losses as they arise, additional contributions will soon be necessary to meet potential future liabilities. Various risk control techniques are also in place, including safety training for employees and the inclusion of appropriate legal provisions in third party contracts and leases that are incorporated to minimize risk of loss. Additional information about the City's self-insurance programs is reported in Note 14 to the Basic Financial Statements in the accompanying Financial Section of this report.

Debt Administration

During fiscal year 2007, the City and its agencies issued approximately \$78.3 million in debt as follows:

Fund / Agency	Amount (millions)	Purpose
General Fund	\$54.0	Tax Revenue Anticipation notes
Redevelopment Agency	<u>24.3</u>	Acquisition and development of parks and open spaces
	<u>\$78.3</u>	

Tax Revenue Anticipation Notes were issued in October 2006 to meet cash flow needs of the City's General Fund. General Fund revenues mostly from tax receipts were accumulated to pay off the notes.

More detailed information about the debt position of the City is reported in Notes 8 through 11 of the notes to the Basic Financial Statements in the accompanying Financial Section of this report, as well as in the Schedules of Debt Capacity of the accompanying Statistical Section that complies with the new Governmental Accounting Standards Board (GASB) Statement No. 44.

Pension and Other Post Employment Benefits

The City provides full-time employees retirement and disability benefits, including annual cost-of-living adjustments and death benefits through the California Public Employees' Retirement System (CalPERS), a multi-employer public employee defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. The contribution requirements to the pension plan are established and amended by CalPERS.

The City's funding policy is to make contributions as determined by CalPERS. Based on the latest actuarial valuations by CalPERS, the City contributed the employer portion of 12.012 percent and 16.563 percent of salary for miscellaneous and safety employees, respectively in fiscal year 2007. As of June 30, 2006, the miscellaneous employees' pension plan was funded at 95.0 percent and the safety employees' plan at 102.6 percent, compared to 95.4 percent and 103.0 percent, as of June 30, 2005, respectively for miscellaneous and safety.

The City provides Special Status Contractors, and Seasonal and Temporary employees retirement, death and disability benefits through a Public Agency Retirement System (PARS) defined benefit single employer retirement plan.

The PARS plan is administered through a third-party administrator. The City's funding policy is to make the contribution as determined by the PARS plan's actuary. The PARS plan was funded at 165 percent as of September 30, 2007 and the City contributed the full Annual Pension Cost of \$92,546 based on the actuarial valuation for September 30, 2007.

The City also provides post-retirement health care benefits under the provisions of the City's Personnel Ordinance where upon retirement from the City, retirees, their spouses and eligible dependents are allowed to use the cash value of the employee's accumulated unused sick leave to pay for health, dental, vision, short- and long-term disability and long-term care insurance under the City's Retired Employees' Health Insurance Program. As of September 30, 2007, there were 693 participants in this program at a cost of \$5,503,000 during the fiscal year. Consistent with Governmental Accounting Standards Board (GASB) No. 45 requirements, the City has hired an independent actuarial firm to analyze and calculate the City's unfunded accrued actuarial liability for these other post employment benefits. The results of this study have been presented to the City Council's Budget Oversight Committee in preparation for implementing GASB 45 in fiscal year 2008.

Additional information on the pension arrangements and post employment health care benefits can be found in Notes 12 and 13, of the Notes to the Basic Financial Statements in the accompanying Financial Section of this report.

Independent Audit

Section 803 of the City Charter requires the City Auditor, at least once in each fiscal year, to audit the financial statements of the City. Immediately upon completion of such audit, the City Auditor shall make and file with the City Clerk a written report thereof. The City Auditor contracted with an independent certified public accounting firm for the audit of the City's Basic Financial Statements for the fiscal year ended September 30, 2007. The Independent Auditors' report has been included in this report.

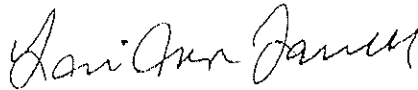
Acknowledgments

We wish to acknowledge the excellent participation and professional contribution of the Department of Financial Management and other City departments' staff in the preparation of this document. The CAFR requires a considerable amount of effort and time, in addition to normal daily job duties. The continued dedication of all staff involved in the development of this Comprehensive Annual Financial Report is most appreciated.

Respectfully submitted,



PATRICK H. WEST
CITY MANAGER



LORI ANN FARRELL
DIRECTOR OF FINANCIAL MANAGEMENT



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles CA 90071 1568

Independent Auditors' Report

The Honorable Mayor and City Council
City of Long Beach California:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California, (the City) as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present (fairly) in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California, as of September 30, 2007, and the respective changes in financial position and where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, the Housing Development Fund, and the Community Development Grants Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over

financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 25 and the schedule of the City's pension plans funding progress on pages 130 and 131 are not a required part of the basic financial statements, but are supplementary information required by the U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information identified in the table of contents as the introductory section, the additional financial information section, and the statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining and individual fund statements and schedules in the additional financial information section have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

June 25, 2008

Contractor Name City of Long Beach
Program Name Black Infant Health
Fiscal Period July 1, 2006 through June 30, 2007

SUMMARY OF REVIEWED CONTRACT EXPENDITURES

Budgeted Categories	<u>Revised Amount</u>	<u>Billed to Date</u>	<u>Remaining Contract Amount</u>	<u>Amount Paid</u>	<u>Questionable Billings</u>
Personnel (Adj 1)	\$ 401,687	\$ 401,334	\$ -	\$ 401,334	\$ (452)
Operating Expenses (Adj)	29,828	29,822 *	-	29,822 *	-
Capital Expenditures (Adj)	-	-	-	-	-
Other Costs (Adj)	47,247	33,073	-	33,073	-
Indirect Costs (Adj)	<u>26,435</u>	<u>24,853</u>	<u>-</u>	<u>24,853</u>	<u>-</u>
Total Expenditures	<u>\$ 505,197</u>	<u>\$ 489,082</u>	<u>\$ -</u>	<u>\$ 489,082</u>	<u>\$ (452)</u>

* Includes \$20,881 capital cost for modular furniture

Contractor Name			Fiscal Period		Contract Number	Adjustments
CITY OF LONG BEACH			JULY 1, 2006 THROUGH JUNE 30, 2007			
Report References						
Adj. No.	Audit Report	Invoice or Claim	Form #	Line	As Reported	Increase (Decrease)
	Schedule	Line				
1	B	N/A	Q2	1	Personnel	
					To recover the contractor's billing error.	
					Maternal Child and Adolescent Health Program Administrative Policies and Procedure	
					Office of Management and Budget Circular A-87	
					\$401,334	(\$452)
						\$400,882

ADJUSTMENT TO OTHER MATTERS

Page 1

CITY OF LONG BEACH
MATERNAL, CHILD, ADOLESCENT HEALTH AND BLACK INFANT HEALTH
JULY 1, 2006 THROUGH JUNE 30, 2007

VIII CONTRACTOR RESPONSE TO ADJUSTMENTS/FINDINGS

Subsequent to the exit conference the contractor submitted a response to the Contract Compliance finding numbers 2, 4 and 5 discussed in this report. A copy of this response is included as Attachment C.

No revisions were made to this report as a result of the Contractor's response.

ATTACHMENT C

May 22, 2009 – Nani Blyleven, CLB

Response to audit findings for City of Long Beach for fiscal year 2006/2007 on the draft audit report

Maternal, Child and Adolescent Health and
Black Infant Health Programs

Finding No. 2 Contractor did not file 1st qtr MCAH invoice and 4th qtr BIH invoice in a timely manner

1st Qtr MCAH: I did not find any notes from that period, however I noticed from the invoice log that most of the quarterly invoices were also sent in late. As I recall I was without my key support person and was also doing the annual TCM cost report.

4th Qtr BIH: There were some corrections needed on the invoice and the state's contract manager and I worked together to correct them errors. I later found out that I could do supplemental invoices at a later time if needed for some of the grants rather than delaying the 4th qtr

Finding No. 4 The contractor incorrectly claimed \$452 BIH Coordinator as enhanced funds.

The BIH coordinator at that time, coded a few hours of enhanced time on her time survey. This error was not caught until the following quarter. At that time the state's contract manager and I tried diligently to fix this error, but because we had already been paid, a viable resolution could not be found. In the end (4th qtr) we did a budget revision to add funds to the enhanced column. Since then staff has had extensive FFP timestudy training, and the error had not been repeated.

Finding No. 5 Modular furniture purchase of \$20,881 was incorrectly reported as other costs instead of Capital Costs on BIH 4th quarter invoice

Based on the state's definition of Capital expenditures, the modular furniture should NOT be under capital costs. In addition, the \$20,881 is made up of several invoices, including labor for the actual move. No single item costs was over \$5,000.

Nani Blyleven
Public Health Analyst
City of Long Beach
Department of Health & Human Services

CITY OF LONG BEACH
MATERNAL, CHILD, ADOLESCENT HEALTH AND BLACK INFANT HEALTH
JULY 1, 2006 THROUGH JUNE 30, 2007

IX STATE PROGRAM RESPONSE TO FINDINGS

A draft copy of this report was submitted to the Maternal, Child, Adolescent Health and Black Infant Health programs for their review prior to the report being finalized and released to the contractor

Subsequent to their review, the MCAH program submitted a response to the Contract Compliance findings 2 and 5 discussed in this report. The MCAH program stated that the delay in filing invoices is insignificant; therefore, MCAH considered that the contractor was filing the invoices in a timely manner. The MCAH program considered modular furniture purchase of \$20,881 was correctly reported as other costs instead of Capital costs on BIH fourth quarter invoice because modular furniture is listed under minor equipment on CDPH 1203, and unit cost of the modular furniture is under \$5,000.

No revisions were made to this report as a result of the State Program response.